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1962

ANNUAL REPORT

GRAY
DRUG STORES, INC.

F. W. Woolworth has selected Gray Drug to operate leased drug department in first three units of Woolco low-margin department store chain.

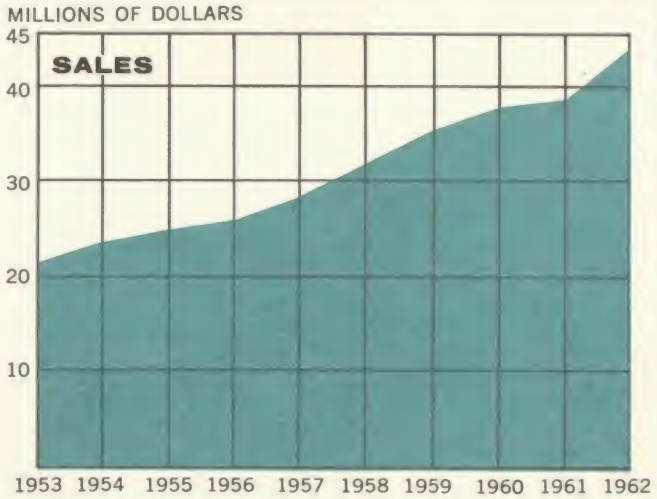
Large cosmetic departments are included in all of our regular drug stores.

Typical view of neat, attractive, spacious leased drug department operated by Gray Drug.

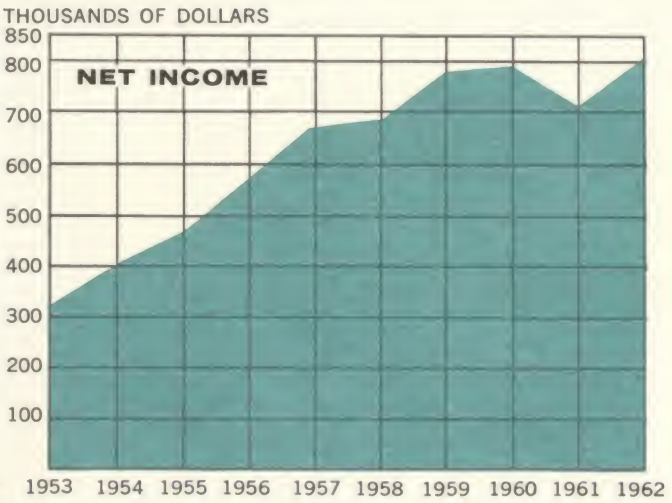
Self-service shopping convenience is provided at virtually all stores, most of which are located in suburban shopping centers.

Complete, maximum quality prescription service is provided.

All stores are departmentalized for maximum customer convenience and profitable utilization of space.



Sales have increased for 12 consecutive years, with greatest gain in our history recorded in past year. Rapid further increases are expected.



Net income this year continued the long-range upward trend.

HIGHLIGHTS OF OPERATIONS

FISCAL YEARS ENDED JUNE 30	1962	1961
Net Sales	$44,952,417	$39,626,661
Net Income	$ 801,113	$ 707,793
Net Income Per Share (1961 adjusted to reflect conversion of Debentures)	$ 1.27	$ 1.12
Dividends Per Share	$ .80	$ .80
Working Capital	$11,599,620	$ 6,218,365
Current Ratio	3.37 to 1	2.47 to 1
Shareholders' Equity	$10,182,328	$ 7,826,699
Number of Regular Stores	109	109
Number of Discount Centers	25	8
Total Locations	134	117

Mr. Weinberger

Mr. Evans

LETTER TO SHAREHOLDERS

Gray Drug Stores, Inc., the nation's seventh largest drug chain, carried out the greatest expansion in its history during the fiscal year ended June 30, 1962, and has started an even larger growth program for the year now under way.

Sales climbed to $44,952,417 for the 12 months ended June 30, 1962. This was an increase of $5,325,756 or 13.44 per cent over the former record of $39,626,661 during the preceding year. Our sales have increased for 12 consecutive years.

Net income also set a record during the year. The total of $801,113 or $1.27 a share was 13.18 per cent over the preceding year's earnings of $707,793 or $1.12 a share as adjusted to reflect conversion of debentures.

Gray Drug now operates a total of 134 units in eight states. Of these, 109 are regular drug stores . . . large, modern, self-service operations, most of them in shopping centers. Four drug stores were opened during the past year, and at least five more will begin operations during the fiscal year now under way.

Sales of regular drug stores totalled approximately $38,000,000 during the year ended June 30, 1962, a new record.

We opened 18 discount units during the past year, most of them drug departments in large new discount department stores. Sales of discount units amounted to approximately $7,000,000 during the year. The Company had 25 discount centers on June 30, and will open 20 more by December 31.

Sound, Basic Business

The Company's regular drug stores, with 25,000 different products in each, offer the customer maximum shopping convenience and product choice in pleasant surroundings. A very complete line of pharmaceuticals is provided at all stores, with competent pharmacists on duty at all hours. There is no sacrifice of product quality or customer service, regardless of any price competition.

However, because of our size and experience, we are able to meet the price competition of discount drug store operators. Our advertisements during the past year stressed the fact that discount drug stores sell only a fraction of the number of products we stock in our regular stores. Therefore, the area of competition is limited, and increases in store volume have tended to offset the effects of price competition.

Our regular drug store operations provide a sound, profitable, steady and basic business. Sales per store in most instances are increasing . . . spurred by aggressive marketing, new ideas, and the population growth in the suburban areas where shopping centers are located. A shopping center store may lose money initially for a period of about two years until population and traffic build up in the area. It then generally provides a healthy and growing source of income.

The large number of regular drug store openings in the past few years and our continuing expansion in this field mean that we are investing part of today's profits for the prudent building of larger potential income during the years ahead.

Pioneering a Discount Trend

Around the edges of nearly every big city in America, giant discount or low-margin department stores are attracting vast shopping crowds. Drug departments in an increasing number of these stores are operated by Gray Drug.

We have been selected to operate the leased drug centers in the first three Woolco stores, the start of a projected chain of F. W. Woolworth low-margin department stores. Gray Drug is operating leased departments in the stores of the fast-expanding, coast-to-coast Consumers Mart of America chain. We have just opened the first drug department of a number which we will operate in the large King Department Stores chain, whose stores are primarily located in the East.

Drug departments in such stores sell prescriptions, health and beauty aids, tobacco items, and usually school supplies, stationery, candy, photo supplies, greeting cards and similar products. Because of our quantity purchases from important brand-name manufacturers in these fields, we are able to offer leading products at the lowest possible cost. Savings are also made possible by standard low-margin selling practices . . . larger

package size, complete self-service, floor inventory, and stocking of fastest-moving items.

In contrast to the comparatively long period required by a regular drug store to begin earning a profit, a discount department usually begins to provide income within about three months. Profit margins are not high, but the large volume provides substantial over-all income opportunities.

Gray Drug pioneered in developing such departments in discount chains. The chains with whom we are now associated are among the most outstanding and fastest-growing in the country, and we are expanding our discount operations with them on a selective basis. Discount drug centers of this nature have a sales potential of from $300,000 to $1,000,000 a year each.

By December 31, Gray Drug will have a chain of 45 or more discount operations. Opening and stocking these stores involve large expenses, but we believe the results will warrant such operations.

Strong Financial Position

The Company is in excellent financial position for the rapid continuing growth ahead. Following redemption of a previous issue of debentures which included limitations on our financing, and the subsequent sale of $5,230,000 in a new series of convertible subordinated debentures, funds are available for all contemplated expansion needs. There is no other long-term debt outstanding.

Current assets of $16,483,990 are in a ratio of 3.37 to current liabilities, and total shareholders' equity is $10,182,328, a new record and an increase of 30 per cent over the preceding year. Working capital totalled $11,599,620 at the fiscal year-end.

$55,000,000 Sales Projected

Gray Drug employees traditionally have combined competitive marketing ability with a spirit of customer service that in our opinion is unexcelled. Our drug store and discount center managers share directly in the progress of their units through an incentive system based on the income they generate. The Company's management team is qualified and competent to handle the much larger organization that we are becoming.

Our operations over a long period have been concentrated in Ohio and adjacent states. During the past two years, we have expanded to the East Coast and the West Coast, and the Company now has the background and the operational pattern for further national expansion.

Last year's sales increase of $5,325,756 compares with average annual increases of approximately $2,000,000 for the preceding 10 years. This increase is due primarily to sales in discount departments. The Company was among the first to recognize the opportunities inherent in operation of drug centers in discount department stores, and the result is a large and dynamic new growth program entirely in addition to the long-proved expansion and profit potential of our regular drug store business.

With many new units in their first full year of operation, and many more locations just opened or due to open within the next few weeks, Gray Drug anticipates an increase in sales during the current year, and expects to be operating at an annual rate of $55,000,000 or more by June 30, 1963.

We wish to extend our sincere appreciation to all members of our organization, to our suppliers, and to our customers for the contribution which they have made to the continuing progress of Gray Drug Stores, Inc.

Sincerely,

Adolph Weinberger, Chairman

Carlyle W. Evans, President

SEPTEMBER 14, 1962.

OPERATIONAL TRENDS AND PLANNING FOR LONG-RANGE PROFIT PROGRESS . . .

Exterior of a typical shopping center store.

"Dutch Oven" dining area.

Gray Drug, in regular store and discount operations alike, emphasizes a combination of product quality, customer convenience, good service and competitive prices. Within this framework, there is excellent opportunity for an experienced, large organization to build profits steadily and substantially.

One interesting trend, made to order for the Company's marketing techniques, is the development of larger shopping centers. Most shopping centers in operation today have a total of under 200,000 square feet of store space, with no department stores except for small branch operations. This situation is changing with the construction of large regional shopping centers of 450,000 square feet or more, often including two large department stores.

Gray Drug, already well experienced in the operation of drug stores in shopping centers, has a number of stores scheduled in these larger market places as far ahead as 1964. They will be much bigger than present operations to handle greater customer volume, providing not only increases in sales, but many additional opportunities for new profit programs already being tested in our present stores. These stores will be located in the Severance Shopping Center in Cleveland, Ohio; The Northland Center in Columbus, Ohio; The Dadeland Mall in Miami, Florida; and the Boulevard Mall in Buffalo, New York.

Many New Lines

The large modern drug store located in a shopping center today is more than just a source where drugs and sundries can be purchased quickly and conveniently. It can and should be the most popular spot in the shopping center.

Gray Drug constantly tests new ideas and new product lines to attract the maximum number of shoppers and provide improved service to them. With our extensive electronic computer facilities, we expect to measure the profit contribution of each product line in relation to the sales floor space involved, and to concentrate on programs which offer the best return on investment.

A year ago we were testing an automotive parts department in a single store. It proved very successful, and similar departments are now in operation at most of our drug stores, offering polishes and cleaners, headlamps, mirrors, dash trays, tube repair kits, ignition repair kits, pedal covers, and other fast-selling items.

The Company for several years has featured large paper back book displays, and now is experimenting with a substantially enlarged type of paper back book and greeting card department which takes in a complete section of the store. Hundreds of book titles are featured, including a wide variety of pocket classics suitable for extra-curricular reading by high school students. Teachers have been informed of this new facility, and we believe it is complete enough to draw customers from a wide area.

We will have soft goods departments in some of the larger new stores being planned. Products will include infants' and children's wear, socks and footwear, T-shirts and dress shirts, blue jeans, sweaters, lingerie, wash dresses and aprons, white goods and similar lines with a quick turnover. Drapery and curtain hardware departments also are being tested.

Opening day at discount department store.

Promising results have been obtained from testing of a dairy delicatessen department for shoppers in a hurry. It provides such items as milk, dairy and frozen foods, bread and cakes, and a few staple groceries.

The large new regional center stores also make possible the operation of more profitable restaurant facilities. Our newest Miami store, with a total selling area of 13,500 square feet, includes a 2500-square-foot "Dutch Oven" restaurant seating 88 persons.

Competitive Ability

New product lines offer one successful method of meeting the competitive problems faced by the Company's drug stores.

Another important factor, sometimes lost sight of in a period of competitive price advertising, is that a great many people prefer and seek out quality merchandise. We are studying a number of products depending on high quality for their sales appeal, and upgrading of various lines is being carefully considered.

Of course, it should be remembered that the basic strength of Gray Drug is its competitive ability, and growth increases this ability. When intense competition in any area affects the prices we can charge, aggressive promotion of lower prices brings increased volume that maintains or adds to over-all net income.

Being competitive is our business, and we are equipped by size and experience to thrive and continue our profitable growth in a competitive environment.

Improvements in our drug store operations occurred last year in Cleveland, where the price competition has been most intense. We were able to make such improvements by strengthening the public image of Gray Drug as a chain that will not be undersold, and that at the same time will make no compromise with the quality of products and service.

One of the steps taken to maintain low prices has been the abandonment of trading stamps at most of our stores. This has permitted us to pass along a savings of from 1½ to 2 per cent to customers.

The Discount Revolution

Gray Drug has been able to meet competition successfully in its regular drug stores, and by extending its operations into the discount drug field has been able to more than keep pace with the breath-taking changes taking place in consumer buying habits.

Shopping center and discount department store operators alike usually base their rents to drug stores or drug departments on a fixed fee plus a percentage of sales. Gray Drug can provide extensive proof of ability to generate maximum sales from such units, and this means more money for the property owners. In addition, our financial strength and reputation, as well as our ability to create heavy customer traffic, are additional benefits to the shopping center or discount department store developer.

This is the reason we have been selected to move into more and more shopping center locations throughout the country, including the important new regional centers, and to operate leased drug departments in large and fast-growing discount department store chains.

Our discount business will be at a rate of $17,000,000 a year by December 31, with every indication that it will continue growing as rapidly as we can open new units.

Discount drug centers opened or scheduled to open during the first half of the current fiscal year are in San Leandro, Sacramento, Richmond, Salinas and Pacoima, Cal.; Las Vegas, Nev.; West Palm Beach and Fort Lauderdale, Fla.; Tucson, Ariz.; Utica, N. Y.; Chicago, Ill.; Richmond, Va.; Florence, Ky.; Richmond, Ind.; and Columbus, Cleveland, Newark, Canton and Xenia, Ohio. New drug stores opening during this period are in Miami, Fla.; Buffalo, N. Y.; and Findlay, Ohio.

Expanded Horizons

The geographical diversity of these new locations indicates the speed at which Gray Drug is expanding from a local Ohio chain to a nationwide organization. We have been able to decen-

25,000 items in each regular drug store.

tralize operations and develop new techniques for merchandising and promoting the Company's products at locations far removed from our headquarters office at Cleveland.

Travel expenses and other costs related to opening new stores in widely separated parts of the country have been high, and we have now developed patterns that should make possible the opening of such operations at more moderate investment than possible during the period when this program of national expansion was just beginning.

Experience to date in operating stores successfully at locations as far as 2000 miles or more from our central offices has substantially expanded our horizons for long-range progress.

Meeting Consumer Needs

Since most of our locations are in suburban shopping centers or department stores, Gray Drug benefits from modern trends towards the expansion of suburban populations.

Pharmaceuticals, cosmetics, paper back books, babies' and children's needs, photographic equipment, and other product fields represented by the major departments in all of our stores are primary growth markets.

Every product classification and every phase of our operations are constantly under review in such fields as streamlining of inventory, time study, ordering techniques, storage and handling, store layouts, and over-all review of methods to improve efficiency and income margins.

The contribution to income of each unit in the Gray Drug chain is periodically reviewed, and smaller volume units are closed.

The Company thus is flexible, and is constantly improving and strengthening operations to meet the demands of present-day competition. We anticipate no lessening of this competition, but expect increases in volume to offset pressures on profit margins and provide for continuing increases in income.

Existing electronic data processing equipment, installed about five years ago, has increased annual inventory turn-over about 13 per cent, and inventory at our 90,000-square-foot Cleveland warehouse now is turned over nearly 10 times a year.

A much more sophisticated high-speed IBM system is being installed this month, to increase operating efficiencies and provide a number of new services in addition to improved inventory management. The new system's storage file capacity of 10 million digits is eight times greater than equipment now in use. The new system will halve the time required to obtain individual store profit and loss statements, and aid in the development of a new automatic reorder system. Savings through increased efficiency will be substantial.

Roads to Progress

Volume per store is continuing to grow, the number of regular drug stores and the size of these stores are increasing steadily in line with past trends, and the very rapid progress of our drug departments in discount department stores is an entirely new phase of our operations.

Of course, the rapid population growth in younger age groups will have a significant effect on sales during the years ahead. The substantial rise in the postwar birth rate is just beginning to be reflected in larger demand for such drug store products as cosmetics and paper back books. Within a few years, the first of the young men and women in this group will begin to form families . . . and become customers for our baby departments, children's pharmaceuticals, do-it-yourself home repair supplies, and the other products we supply for young families.

Gray Drug to date has met the tests of a very substantial growth program, and believes that its people can continue to do so.

10 years of progress

	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953
Net Sales	$44,952,417	$39,626,661	$37,552,700	$35,991,537	$32,249,706	$29,333,474	$25,543,059	$23,390,391	$22,578,421	$21,075,426
Net Income Before Federal Taxes on Income	$ 1,611,213	$ 1,467,793	$ 1,673,989	$ 1,607,591	$ 1,371,322	$ 1,404,880	$ 1,206,429	$ 953,560	$ 875,643	$ 713,203
Net Income	$ 801,113	$ 707,793	$ 793,989	$ 768,591	$ 692,322	$ 690,880	$ 576,429	$ 470,560	$ 407,643	$ 327,898
Income per Common Share (1)	$ 1.27	$ 1.42	$ 1.63	$ 1.58	$ 1.48	$ 1.47	$ 1.31	$ 1.07	$ .95	$ .77
Income as a Percentage of Sales	1.78%	1.78%	2.12%	2.14%	2.15%	2.36%	2.25%	2.01%	1.81%	1.55%
Income as a Percentage of Shareholders Equity	7.87%	9.04%	10.82%	11.20%	11.06%	11.95%	11.20%	9.94%	9.36%	8.06%
Cash Dividends Declared — Common Stock	$ 476,335	$ 393,062	$ 323,850	$ 256,720	$ 218,718	$ 208,928	$ 161,618	$ 145,893	$ 142,925	$ 141,350
Dividends Per Share (1)	$ .80	$ .80	$ .66⅔	$ .53⅓	$ .46⅔	$ .46⅔	$ .36⅔	$ .33⅓	$ .33⅓	$ .33⅓
Number of Shares Issued (1)	$ 629,654	496,762	485,775	485,775	469,242	468,492	440,775	440,775	429,600	424,500
Net Working Capital	$11,599,620	$ 6,218,365	$ 6,087,245	$ 5,630,703	$ 3,691,958	$ 3,509,318	$ 3,389,227	$ 3,014,120	$ 2,733,670	$ 2,639,914
Total Assets	$20,296,698	$14,195,991	$14,114,536	$13,262,079	$11,195,293	$ 9,883,411	$ 9,069,108	$ 8,279,362	$ 7,846,751	$ 7,558,081
Long Term Debt	$ 5,230,000	$ 2,139,200	$ 2,313,500	$ 2,313,500	$ 531,426	$ 576,377	$ 758,554	$ 917,839	$ 1,055,951	$ 1,181,480
Shareholders Equity (2)	$10,182,328	$ 7,826,699	$ 7,338,099	$ 6,867,960	$ 6,259,195	$ 5,781,497	$ 5,146,538	$ 4,731,727	$ 4,355,673	$ 4,069,380
Book Value per Share (1)	$ 16.17	$ 15.76	$ 15.11	$ 14.14	$ 13.34	$ 12.34	$ 11.68	$ 10.74	$ 10.14	$ 9.59
Fixture and Leasehold Additions	$ 713,221	$ 901,411	$ 748,758	$ 985,427	$ 903,700	$ 786,314	$ 467,887	$ 459,809	$ 452,272	$ 427,868
Depreciation	$ 667,295	$ 663,750	$ 633,483	$ 575,139	$ 507,717	$ 465,372	$ 451,573	$ 412,190	$ 383,368	$ 349,870
Units in Operation — End of Year	134	117	111	107	102	86	81	78	80	78

(1) Based upon the number of shares outstanding at the end of each year adjusted to reflect a stock split of 3 for 1 on September 30, 1960.

(2) Does not include amounts due in 1954, 1953 and 1952 on shares subscribed but not issued.

CONSOLIDATED BALANCE SHEET

GRAY DRUG STORES, INC. AND SUBSIDIARIES

ASSETS

	June 30, 1962	June 30, 1961
CURRENT ASSETS		
Cash	$ 1,008,845	$ 1,195,799
United States Treasury Bills — at cost plus accrued interest	3,471,080	- 0 -
Accounts receivable, less allowance of $30,000	384,287	249,367
Inventories, priced generally on the basis of the lower of cost (latest) or replacement market	11,192,605	8,662,442
Prepaid expenses	427,173	340,849
TOTAL CURRENT ASSETS	$16,483,990	$10,448,457
OTHER ASSETS	125,994	131,577
FIXED ASSETS — on the basis of cost		
Furniture, fixtures, and equipment	$ 3,987,257	$ 3,946,204
Leasehold improvements	2,430,247	2,509,358
	$ 6,417,504	$ 6,455,562
Less allowances for depreciation and amortization	2,886,449	2,909,277
	$ 3,531,055	$ 3,546,285
DEFERRED DEBENTURE EXPENSE	155,659	69,672
	$20,296,698	$14,195,991

GRAY
DRUG STORES, INC.

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 1962	June 30, 1961
CURRENT LIABILITIES		
Trade accounts	$ 2,241,368	$ 1,931,733
Other liabilities and accrued expenses	1,592,711	1,344,105
Taxes other than federal taxes on income	261,930	232,872
Federal taxes on income — estimated	788,361	721,382
TOTAL CURRENT LIABILITIES	$ 4,884,370	$ 4,230,092
LONG-TERM DEBT — Note A	5,230,000	2,139,200
SHAREHOLDERS' EQUITY		
Common Stock, par value $1 a share — Notes A and B:		
Authorized 1,000,000 shares		
Outstanding 629,654 shares (1961 — 496,762 shares)	$ 629,654	$ 496,762
Capital in excess of par value	3,889,783	1,991,824
Earnings retained for use in the business — Note A	5,662,891	5,338,113
TOTAL SHAREHOLDERS' EQUITY	$10,182,328	$ 7,826,699
LONG-TERM LEASE COMMITMENTS — Note D		
	$20,296,698	$14,195,991

See notes to financial statements.

GRAY DRUG STORES, INC. AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED CAPITAL IN EXCESS OF PAR VALUE

	Year Ended June 30, 1962	1961
Balance at beginning of year	$ 1,991,824	$ 2,152,792
Excess of conversion price, less expenses, over par value of 130,792 shares (1961 — 9,665 shares) of Common Stock issued upon conversion of 5% Convertible Debentures due 1974	1,866,816	164,204
Excess of proceeds from sale of Common Stock under the Company's stock option plan over the aggregate par value of such shares	31,143	- 0 -
	$ 3,889,783	$ 2,316,996
Par value of 325,172 shares of Common Stock issued to effect a three-for-one stock split	- 0 -	325,172
Balance at end of year	$ 3,889,783	$ 1,991,824

STATEMENT OF CONSOLIDATED EARNINGS RETAINED FOR USE IN THE BUSINESS

Balance at beginning of year	$ 5,338,113	$ 5,023,382
Net income for the year	801,113	707,793
	$ 6,139,226	$ 5,731,175
Cash dividends declared — $.80 a share — Note C	476,335	393,062
Balance at end of year	$ 5,662,891	$ 5,338,113

STATEMENT OF CONSOLIDATED INCOME

Net sales	$44,952,417	$39,626,661
Other operating income	143,152	124,156
Other income	25,921	78,859
	$45,121,490	$39,829,676
Costs and expenses:		
Cost of goods sold	$29,267,905	$25,015,370
Selling, general and administrative expenses	13,451,891	12,560,305
Depreciation and amortization	667,295	663,750
Interest expense	123,186	122,458
	$43,510,277	$38,361,883
INCOME BEFORE FEDERAL TAXES ON INCOME	$ 1,611,213	$ 1,467,793
Federal taxes on income — estimated	810,100	760,000
NET INCOME	$ 801,113	$ 707,793

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC. AND SUBSIDIARIES
Year ended June 30, 1962

Note A — Long-term debt:

The 5% Convertible Debentures due 1974 that were outstanding at June 30, 1961, were called for redemption and were redeemed or converted on or before October 30, 1961.

In April, 1962, the Company issued 5% Convertible Subordinated Debentures due 1982 in the principal amount of $5,230,000. The Indenture under which the Debentures were issued provides for sinking fund payments on or before January 25 in each year commencing in 1967, in an amount sufficient to redeem $285,000 principal amount of Debentures on the next ensuing February 1.

The Debentures are convertible into shares of Common Stock of the Company, at the option of the holder, at any time on or before February 1, 1982, at a conversion price (subject to adjustment in certain events) of $26 per share until February 1, 1967, $27 per share until February 1, 1972, and $28 per share thereafter until maturity.

At June 30, 1962, 201,154 shares of Common Stock were reserved for conversion of the Debentures.

Under terms of the Indenture, earnings retained for use in the business in the amount of $1,358,021 at June 30, 1962, were available for distribution to shareholders.

Note B — Stock options:

Stock options were granted on April 29, 1960, to certain officers and key employees to purchase 18,000 shares of the Common Stock of the Company. The price at which the options were granted was the approximate quoted market price ($15.83) at the date of grant except that the option price to the principal shareholder and two employees related to him was 110% of such price ($17.42) to permit qualification as a restricted stock option. All the options became exercisable on April 29, 1962, and expire on April 29, 1965. During the year ended June 30, 1962, options for 2,100 shares were exercised at $15.83 per share, and at June 30, 1962, options for 15,900 shares were outstanding.

Note C — Dividends:

The Company deposited funds with the dividend disbursing agent on June 29, 1962, for payment of the dividend payable July 2, 1962.

Note D — Long-term lease commitments:

The companies are lessees under a number of leases extending from one to twenty years. The annual aggregate minimum rental payable under such leases (many of which provide for additional rental if amounts based on specific percentages of sales exceed the minimum) amounted to approximately $2,086,000 at June 30, 1962.

Note E — Pension plan:

Contributions under the pension plan for employees of the companies amounted to approximately $158,000 for the year ended June 30, 1962, including amortization of the cost of past service benefits to retirement age of participants. The unfunded cost of past service benefits at June 30, 1962, was approximately $16,000.

ACCOUNTANTS' REPORT

Board of Directors
Gray Drug Stores, Inc.
Cleveland, Ohio

We have examined the consolidated balance sheet of Gray Drug Stores, Inc. and subsidiaries as of June 30, 1962, and the related statements of consolidated capital in excess of par value, earnings retained for use in the business, and income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of capital in excess of par value, earnings retained for use in the business, and income present fairly the consolidated financial position of Gray Drug Stores, Inc. and subsidiaries at June 30, 1962, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cleveland, Ohio
August 24, 1962

Ernst & Ernst

BOARD OF DIRECTORS

CARLYLE W. EVANS	President, Gray Drug Stores, Inc.
HENRY H. GRAY	Vice-President, Gray Drug Stores, Inc.
LLOYD C. DOUGLASS	Vice-President, Gray Drug Stores, Inc.
GEORGE F. PRYOR	Vice-President, The Cleveland Trust Co.
JOHN W. REAVIS	Partner, Jones, Day, Cockley & Reavis
ADOLPH WEINBERGER	Chairman of the Board, Gray Drug Stores, Inc.
CARL WEINBERGER	Buyer, Gray Drug Stores, Inc.
JEROME WEINBERGER	Vice-President, Gray Drug Stores, Inc.

OFFICERS

ADOLPH WEINBERGER	Chairman of the Board
CARLYLE W. EVANS	President
LLOYD C. DOUGLASS	Vice-President
HERBERT H. DURR	Vice-President
HENRY H. GRAY	Vice-President
MARVIN L. KAHN	Vice-President
MILTON M. NEUBAUER	Vice-President
JEROME WEINBERGER	Vice-President
LOUIS BERWITT	Secretary
ROBERT E. BREIG	Treasurer
JOSEPH VALINS	Assistant Secretary
KENNETH FREY	Assistant Treasurer
I. ROSEN	President, Superior Laboratories, Inc.

TRANSFER AGENT AND REGISTRAR

THE CLEVELAND TRUST COMPANY — Cleveland, Ohio

AUDITORS

ERNST & ERNST — Cleveland, Ohio

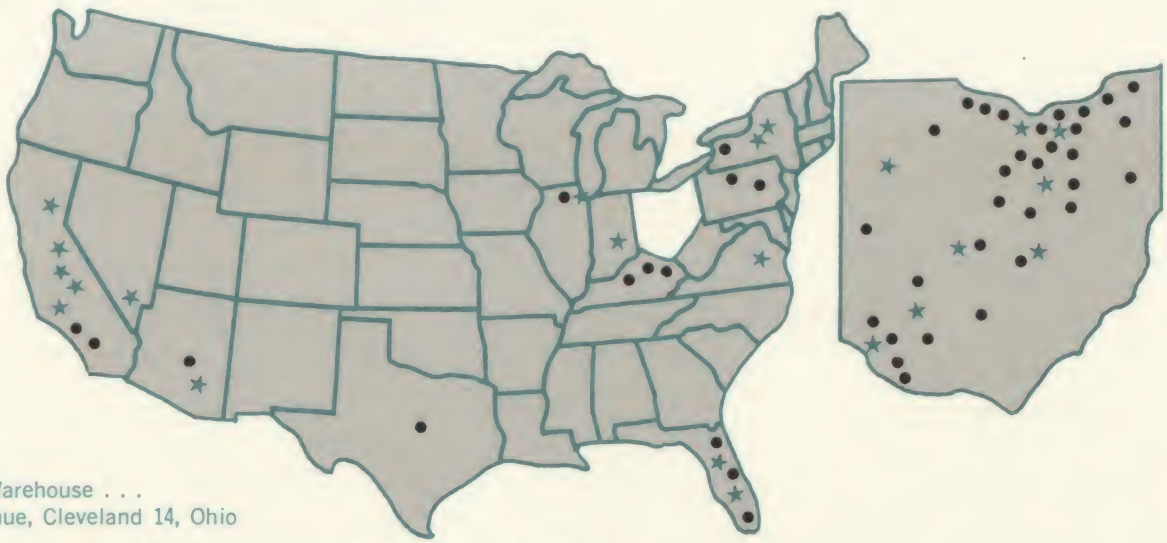
COUNSEL

JONES, DAY, COCKLEY and REAVIS — Cleveland, Ohio

STOCK LISTED

MIDWEST STOCK EXCHANGE — Chicago, Illinois

GRAY DRUG STORES, INC. AND SUBSIDIARIES



Main Office and Warehouse . . .
2400 Superior Avenue, Cleveland 14, Ohio

★ Already opened or scheduled for opening during the first half of fiscal 1963.

CITIES	NUMBER OF UNITS
• Akron, O.	10
• Allentown, Pa.	1
• Alliance, O.	1
• Anaheim, Cal.	1
• Ashtabula, O.	2
• Bradford, Pa.	1
★ Buffalo, N. Y.	1
• Canton, O.	4
★ Canton, O.	2
★ Chicago, Ill.	1
• Chillicothe, O.	1
• Cincinnati, O.	9
★ Cincinnati, O.	2
• Cleveland, O.	20
★ Cleveland, O.	3
• Columbus, O.	20
★ Columbus, O.	1
• Covington, Ky.	1
• Dayton, O.	7
• Dover, O.	1
• Fairborn, O.	1
★ Findlay, O.	1
★ Florence, Ky.	1
★ Ft. Lauderdale, Fla.	1
• Ft. Worth, Tex.	1
• Fremont, O.	2
• Hamilton, O.	1
• Jacksonville, Fla.	1
• Lancaster, O.	1
★ Las Vegas, Nev.	1
• Lima, O.	1
• Lorain, O.	1
• Mansfield, O.	4
• Massillon, O.	1
★ Massillon, O.	1
• Mentor, O.	1
• Miami, Fla.	2
★ Miami, Fla.	1
• Middletown, O.	2
• Newark, O.	1
★ Newark, O.	1
• Newport, Ky.	1
★ New Hartford, N. Y.	1
• Northfield, O.	1
• Orlando, Fla.	1
★ Pacoima, Cal.	1
• Painesville, O.	2
• Palatine, Ill.	1
• Phoenix, Ariz.	1
★ Richmond, Cal.	1
★ Richmond, Ind.	1
★ Richmond, Va.	1
★ Sacramento, Cal.	1
★ Salinas, Cal.	1
• Sandusky, O.	2
★ San Leandro, Cal.	1
• Sheffield, O.	1
• Springfield, O.	1
• Stow, O.	1
• Steubenville, O.	2
• Sunnyvale, Cal.	1
★ Tampa, Fla.	1
• Torrance, Cal.	1
★ Tucson, Ariz.	1
★ Utica, N. Y.	1
• Warren, O.	5
★ West Palm Beach, Fla.	1
• Willoughby, O.	1
• Wooster, O.	2
★ Xenia, O.	1
• Youngstown, O.	11

One of big suburban discount department stores in which we operate leased drug department.

Discount drug centers are large, attractive.

Well-stocked prescription department in discount drug unit.

Tobacco island at regular drug store provides for easy shopping without routing through check-out counters.

Food counter in a "Dutch Oven" restaurant.

GRAY
DRUG STORES, INC.